4. (3 points)

   a. (2 points)

      Briefly describe two circumstances that would lead to a company being placed under each of the following levels of regulatory control and two specific actions that the regulator is authorized to take for each:

      - Mandatory corrective action
      - Administrative supervision

   b. (0.5 point)

      Define the regulatory action of receivership.

   c. (0.5 point)

      Describe one possible outcome from the regulatory action of receivership.

CONTINUED ON NEXT PAGE

4) **Sample Answer**

Part a

Two triggers for Mandatory Corrective Action:

- Fact finding by regulator indicates policyholders may be at risk
- Poor results on financial examinations
- RBC Ratio is within Regulatory Action Level (100-150 or 50-75)
- RBC Ratio is below Company Action Level
- IRIS ratios show abnormality / fail IRIS ratios
- Insurer's ability to pay claims has deteriorated
- (Close to) Insolvency
- Liabilities are greater than assets
- Company has problems paying claims / obligations
- Insurer experiencing excessive growth
- Reserve inadequacy
- Large Catastrophe Loss
- Insurer Fraud

Two actions for Mandatory Corrective Action:

- Submit a plan to improve financial status
- Suspend or limit dividends to policyholder/stockholders
- Limit or withdraw from specified investments
- Require insurer increase capital / surplus
- Restrictions on writing or renewing business
- Limit renewal of non-guarantee renewable policies
- Require insurer to reduce liabilities
- Require increased reinsurance (reduce liabilities)
- Limit expenses (commission expenses , general expenses)
- Require insurer to document the adequacy of its rates

Two triggers for Administrative Supervision

- Mandatory Corrective Action fails
- Financial Conditions are worse than previous level
- Fact finding by regulator indicates policyholders may be at risk
- Poor results on financial examinations
- RBC Ratio is within Authorized Control Level (70-100 or 35-50)

- RBC Ratio is <u>below</u>Regulatory Action Level
- Failing multiple IRIS ratios
- (Close to) Insolvency
- Liabilities are greater than assets
- Company has problems paying claims / obligations
- Insurer experiencing excessive growth
- Reserve Inadequacy
- Large Catastrophe Loss
- Insurer Fraud

Two Actions for Administrative Supervision

Insurer will need regulator's consent/approval for the following (or regulator <u>may</u> limit/restrict/prohibit):

- Incur new debt/financing
- Issue new or renewal policies
- Renewing policies that are not guaranteed-renewable
- Writing premiums
- Purchase Reinsurance
- Merge with another insurer
- Sell or transfer assets or in-force business
- Change Management
- Changes to Executive / management compensation
- Making certain investments
- Withdrawing or lending funds

PART b

- When company is in financial distress and must surrender the company to the commissioner and they determine the fate of the company (liquidate/rehab). Must access assets and liabilities to determine position as well as reserve adequacy.

- When a receiver is assigned to manage a company's assets and distribute funds for obligations faced. Receiver is a disinterested person assigned to be in charge of a company's receivership.

- Receivership is when a receiver (an unbiased disinterested third party) takes control of an insurer and its assets in attempts to stabilize cash flows.

- Receiver is established to stabilize assets and liabilities leading to either rehabilitation or liquidation.

- When judge declares insurer insolvent, places company in court ordered receivership, in which regulator designates receiver to assume control and act to safeguard interests of policy holders/taxpayers during rehab and/or liquidation process.

PART c

- Liquidation is when a company cannot rehabilitate and all the assets are sold to make payments for everyone owed. Must follow a certain order in making payments (UEP return is usually last).
- Rehabilitation insurer continues to service policy holders with creditors satisfying claims from future earnings.
- One outcome is liquidation when the assets are sold off to pay off the company's debts.
- Liquidation – all assets are liquidated to pay as many liabilities as possible and company is dissolved.

Examiner's Report

Part a

The most common incorrect answers confused Mandatory Corrective Action with the Mandatory Control Level of the RBC. Mandatory Corrective Action aligns with the Regulatory Action Level, which is not as severe.

Some candidates only provided the triggers, but not the actions that the regulator could take under each of the levels. If a candidate did not read the entire question, they may have missed that they needed to provide actions as well.

Also, many candidates only gave one trigger (instead of two) for each level.

Part b

Many candidates knew that a receivership involved the regulator taking control of the company (or putting it in the hands of a third party). However, some candidates neglected to provide the receiver's goals or obligations.

Part c

The two correct answers were 'rehabilitation' and 'liquidation'. Candidates who failed to get full credit often did not explain these two events sufficiently.